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C O N F I D E N T I A L SECTION 01 OF 04 HAVANA 000257

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TAGS: [ECON](#) [PGOV](#) [PINR](#) [PREL](#) [CU](#)

SUBJECT: MILK: A POSSIBLE HARBINGER OF WHAT NEW REFORMS MAY  
LOOK LIKE IN CUBA

Classified By: COM: Michael E. Parmly: For reasons 1.4 b/d

[¶1.](#) (C) SUMMARY AND COMMENT: During his 26 July speech, Raul cited the example of milk to explain how he wanted the GOC to lead the way toward progress on satisfying the material needs of its people. Measures being taken by the GOC to improve milk production may indicate the nature of other types of reforms being contemplated. End Summary and Comment.  
Why milk?  
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[¶2.](#) (SBU) In Cuba, milk is rationed to children below the age of seven, pregnant mothers, Cubans suffering from certain ailments, and the elderly. Due to the dire state of the Cuban cattle industry, most of the rationed milk is imported in powdered form. Once imported, the powder is mixed with water and other ingredients either at regional processing plants or directly at the "bodegas" (rationing locations found all over the country), where certain Cubans receive rations of the precious liquid. (Note: This report was derived from various sources, which included official GOC announcements and publications, articles from sanctioned though unofficial Cuban sources, foreign investigative press reporting, and conversations between USINT officers and local contacts of various backgrounds -- foreign diplomats and businessmen, including Americans, as well as Cuban dissidents and nondissidents. End Note.)

[¶3.](#) (C) In his July 2007 speech, Raul said the GOC had been experimenting since the previous March on how to optimize milk production and distribution in six pilot municipalities. The program has since been expanded to 64 municipalities and is credited by the GOC with having increased milk production as well as having realized significant savings during 2007. Tackling milk production involves addressing some of Cuba's main economic challenges. Among them are the needs to: lower expensive imports, increase domestic productivity, increase the availability of food though not its price, and reform the agriculture sector.

The problems:  
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[¶4.](#) (C) Cattle ranching in Cuba has steadily deteriorated over the years, particularly after the 1990s' special period. Some of the many problems include:

a. Except in a few areas of high cattle concentration, such as in some parts of Camaguey province (where 28% of Cuba's milk is produced), domestic milk rarely made it into the rationing system.

b. There were no incentives to increase production. According to a Western journalist with contacts in Camaguey, during a meeting of members of a local cooperative last November, the GOC offered more land in "usufructo" (for use but without title of ownership) to anyone who could work the land. Surprisingly, only 30% wanted more land. Most felt they lacked the necessary inputs and personnel, or simply could not visualize the potential benefits under current GOC restrictions.

c. According to Ministry of Agriculture figures, 48% of cattle areas are infested by the invasive "marabou" shrub.

d. There are about 43,000 owners of 136,000 heads of cattle who do not have adequate pasture areas. Pastures in general are only starting to recover from several years of drought.

e. National Association of Small Farmers (ANAP) president Orlando Lugo Fonte said in a press interview that 61% of cattle farmers have between 1 and 3 cows, while fewer than 3% have more than 20.

f. The largest dairy farmers can be among the best earners in Cuba, making more than 3,000 CUP per month (compared to the average Cuban salary of approximately 380 CUP). Even so, cattle ranchers, inseminators and other critical cattle personnel have left in droves for urban areas to seek better opportunities. Until recently, dairy farmers have had no

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incentives to increase their production and, for those who left, no incentive to return to the ranch.

g. Feed and supplies are hard to come by; indeed, they are almost nonexistent.

h. The small amount of milk that was produced domestically seldom made it out of the countryside. The milk was either: Consumed by the farmers themselves; bought by the GOC (at a low average price of 1 Cuban national peso (CUP) per liter), taken to pasteurization plants for processing and further distribution to the population; or sold in the black market.

i. Inferior road conditions in many areas prevent the timely transport and distribution of milk. These problems would often cause much of the milk to spoil before arriving to its destination in markets. Typically, as little as 45% of the milk delivered to pasteurization plants would be processed as the rest failed to meet minimum standards.

j. Farmers reacted to these market failures by making things like cheese with a portion of their milk, in order to keep it from spoiling, and then selling the cheese on the black market.

k. After fulfilling GOC quota requirements, selling milk products on the black market became the most prevalent practice, as farmers were sometimes able to sell milk at higher prices -- through intermediaries (up to 5 CUP per liter in some cases) -- to a small but willing group of customers who could afford to buy milk. This caused a deviation of domestic milk out of the rationing system and into the hands of highest bidders, customers who were often not the intended recipients of GOC rationing policy (children, elderly, etc.).

l. To make up the shortfall, the GOC had to import increasing amounts of powdered milk. Increasing world milk prices, however, have caused the cost of these imports to increase threefold in the past three years (a cost of USD 145 million

in 2006 alone), causing the cash-strapped GOC to look for ways to substitute such imports with domestically-produced milk.

The new "milk" reforms:

15. (C) The new effort to raise domestic milk production and reduce costly imports included the following components:

- a. The GOC raised the price it pays farmers for milk from 1 CUP to as high as 2.50 CUP, depending on the quality of the milk upon delivery. Similarly, the government also raised beef prices.
- b. The GOC directed its banking system to implement measures that largely eliminated the persistent problem of overdue payments from state companies to farmers and cooperatives.
- c. Milk is now mostly delivered directly from farm to bodega, bypassing the pasteurization process. (Note: This does not automatically pose a health risk to Cubans given that they already boil the milk before consuming it, regardless of its source. End Note.)
- d. Powdered milk is no longer distributed in these bodegas. Rather, domestically-produced milk has taken its place.
- e. Farmers no longer have to rely on the GOC for collection of milk, which involved delayed payments and unpredictable service. Rather, farmers are free to devise more efficient ways to get the milk to the bodegas, by themselves or through middlemen.
- f. The GOC established a new fund for milk farmers, the intent of which is to allow the farmers to purchase scarce agricultural supplies. For every good-quality liter of milk, the GOC deposits 2 cents in the fund. While the GOC pays for milk in national currency (CUP), it is worth noting that the 2 cents allotted to the fund are denominated in Cuban convertible peso (CUC) or hard currency.
- g. The supplies will be made available through a new chain of stores the GOC plans to open specifically for this purpose. To date there are only a few such stores in operation across the island. They are small and sell basic agricultural supplies and equipment -- such as machetes, rakes, shovels, axes, boots, etc. -- in hard currency (CUC), which is expensive for the average Cuban.
- h. According to the GOC, it has increased investment in the sector: More than USD 57 million per year since 2006; improving 592 cattle ranching facilities; repairing 597 units of milking equipment; installing 300 cold-storage tanks in bodegas; supplying additional feed to 105,000 head of cattle, selected exclusively from among the highest milk producers; applying technological solutions, such as developing the genetically modified "Cuba CT-115" from a type of elephant grass, which is supposed to better withstand droughts.
- i. During a recent trip to Havana, John Parke Wright IV, Florida cattle rancher and friend of elder brother Ramon Castro, told us he was negotiating to export 10,000 head of cattle to Cuba. According to Parke, the GOC intends to distribute the cattle among the highest milk producers.
- j. The GOC plans to repair many of the roads which are vital for the transport and distribution of milk and other farm products. The initial phase identified 3,683 kilometers of roads for repair. According to a 1 February article in the GOC-sanctioned Cuban magazine Bohemia, as of December, 320 km had already been repaired.

2007 results:

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¶16. (C) As reported by GOC sources, the new measures led to the following results during the past year:

- a. 16.8% increase in milk production.
- b. 50 million liters of milk were delivered directly to bodegas in 64 municipalities.
- c. USD 30 million in realized savings from less imported powdered milk, lower transportation and distribution costs (especially fuel), and lower processing costs (no pasteurization).
- d. According to Vice Minister of Agriculture Joaquin Lezcano, farmers now sell the GOC 66% of the milk they produce. Before 2007 that figure used to be 48%.

Comments:  
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¶17. (C) There has been a reallocation of milk resources among the population, which brings it more in line with GOC intentions. Milk -- not the powdered kind -- is being redistributed to the recipients it was originally intended for under the GOC's rationing system (children, elderly, etc.). Some new developments support this: 1) Milk is harder to find in the black market and its price, when available, has skyrocketed. 2) The supply of cows-milk cheese has diminished in the cattle provinces of Camaguey and Las Tunas, meaning that farmers have less excess milk left over.

¶18. (C) Although the new measures seem to be having a positive effect, they do not constitute a definitive turn around for the cattle industry in Cuba. Major problems remain unaddressed and most improvements will take years to materialize. The GOC reminds Cubans constantly that solutions, for milk or any of the other many problems affecting the country, will not happen overnight. Many other possible agriculture reforms -- which may or may not be in the pipeline -- are being discussed in the Cuban rumor mill, but the details remain a mystery.

¶19. (C) The GOC could have easily done what was typical under

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Fidel: Use its propaganda machine to show off increased milk production as a major accomplishment while paying lip service to actual reforms. Instead, the GOC seems to have adopted a strategy that aims to address milk in all its complexity. As part of its milk strategy, the GOC is tackling other interrelated problems: land use/distribution; farm-to-market transportation/distribution/commercialization; repairing road network and infrastructure; applied-science solutions; productivity; payment systems; imports; incentives; inputs; decentralized problem-solving; etc.

¶10. (C) If the changes implemented in the production of milk are representative of the type of other economic reforms that the GOC may begin to undertake in the near future, our assessment is twofold: 1) Reforms will be long-term and gradual (not one but five to ten years or more); 2) The GOC will aim to apply some economic incentives while maintaining a socialist framework. The latter, in and of itself, will limit the potential of those reforms.  
PARMLY